

STATE OF UTAH INSURANCE DEPARTMENT
REPORT OF FINANCIAL EXAMINATION
Of

DELTA CARE DENTAL PLAN, INC.

Of
Salt Lake City, Utah

As of
December 31, 2002

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September 3, 2003

Honorable Merwin U. Stewart
Insurance Commissioner
State of Utah
3110 State Office Building
Salt Lake City, UT 84114

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2002, has been made of the financial condition and business affairs of:

DELTA CARE DENTAL PLAN, INC.
Salt Lake City, Utah

a limited health plan, hereinafter referred to in this report as the Company, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

A representative of the Utah Insurance Department last examined the Company as of December 31, 1999. The current examination covers the intervening period from January 1, 2000, through December 31, 2002, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Examination Procedure Employed

The examination was conducted to determine compliance with accounting practices and procedures in conformity with the applicable laws of the state of Utah, insurance rules promulgated by the state of Utah Insurance Department, and Statements of Statutory Accounting Principles (SSAPs) contained within the Accounting Practices and Procedures Manual promulgated by the National Association of Insurance Commissioners (NAIC).

The examination included a general review and analysis of the Company's operations, the manner in which its business was conducted during the examination period and a determination of its financial condition as of December 31, 2002. Assets were verified and valued, and liabilities were determined or estimated. The Company

retained the services of a certified public accounting firm to audit its financial records for the years under examination. The firm provided copies of requested working papers prepared in connection with its audits. The use of the firm's working papers was limited for verification purposes in regards to examination procedures performed.

A letter of representation certifying that management has disclosed all significant matters and records was obtained from management and has been included in the examination working papers.

Status of Adverse Findings, Material Changes in the Financial Statement, and Other Significant Regulatory Information Disclosed in the Previous Examination

The previous financial examination disclosed the following deficiencies: the Company failed to notify the Commissioner of the change in directors and principal officers as required by U.C.A. § 31A-5-410(1)(A) and U.C.A. § 31A-5-410(2); the Company did not maintain records sufficient for examination purposes in Utah; the minutes of the meetings of the board of directors did not indicate the approval of investments; an actuarial certification was not filed with the annual statements pursuant to U.C.A. § 31A-4-113; deficiencies concerning the Company's provider records were noted; abandoned or unclaimed property was not reported to the State of Utah pursuant to U.C.A. § 31A-4-110; and common stocks were not maintained in compliance with U.C.A. § 31A-4-108 and U.C.A. Rule R590-178.

Items commented on above were resolved during the subsequent examination period.

HISTORY

General

The Company was issued a certificate of authority under the name of Associated Dental Plans, Inc. effective June 5, 1991. The revised articles of incorporation, dated March 26, 1991, authorized the issuance of 100,000 shares of common stock with a par value of \$.10 per share.

During April 1991, surplus notes in the aggregate of \$30,000 were issued to three individuals. The individuals transferred their interest in the notes to Associated Companies, Inc. effective November 1, 1992. The three surplus notes were canceled and one \$30,000 note was issued to Associated Companies Inc. to implement the transfer of interest.

The \$30,000 surplus note issued to Associated Companies, Inc. was retired effective December 31, 1992, in return for 84,000 shares of the Company's common stock.

Private Medical-Care, Inc. acquired the Company's outstanding shares of common stock on October 1, 1993. As consideration, Private Medical-Care, Inc. paid \$30,000 in cash, and it agreed to pay the following percentages of gross premium collected through December 31, 1996, from dental plan contracts:

5% - Date of Closing through December 31, 1993

3% - January 1, 1994 through December 31, 1996

Articles of amendment to the articles of incorporation changing the name of the Company to Delta Care Dental Plan, Inc. were executed on December 8, 1993. No amendments to the Company's articles of incorporation were noted, however, the board of directors adopted an amended and restated bylaws on May 20, 2002.

Capital Stock

As of December 31, 2002, the number of shares of stock authorized by the Company was 100,000 at a par value of \$.10 each. The number of shares issued and outstanding was 100,000. The balance in the common stock account was \$10,000. The balance in the paid in surplus account was \$119,552. Private Medical-Care, Inc. owns 100% of the outstanding shares of stock.

Dividends to Stockholders

No dividends were paid during the period under examination.

Management

The board of directors formed an audit committee on July 21, 2000, and an executive committee on May 21, 2001. The following served as officers, directors and committee members of the Company as of December 31, 2002:

<u>Directors</u>	<u>Principal Occupation</u>
Gary D. Radine San Francisco, California	President/CEO, (Chairman) Delta Dental Plan of California
Marilynn G. Belek San Francisco, California	Sr. Vice President, (Director) Delta Dental Plan of California
Robert B. Elliott San Francisco, California	Sr. Vice President, (President) Delta Dental Plan of California
Elizabeth M. Russell San Francisco, California	Sr. Vice Pres. & CFO, (Director) Delta Dental Plan of California
Anthony S. Barth San Francisco, California	Sr. Vice President, (Director) Delta Dental Plan of California

Jerry R. Holcombe
San Francisco, California
Officers

Sr. Vice President, (Director)
Delta Dental Plan of California
Title

Robert B. Elliott
Belinda Martinez
Sharon L. Rafter
Elizabeth M. Russell
Melissa K. Gee
Philip J. Runnoe

President
Vice President
Secretary
Treasurer
Assistant Secretary
Assistant Treasurer

Audit Committee

Executive Committee

William T. Ward
Gary D. Radine
Elizabeth M. Russell
Frederick G. Mylius
Anthony S. Barth

Gary D. Radine
Robert B. Elliot
Elizabeth M. Russell

On November 14, 2000, Fredrick G. Mylius and Gary D. Radine were elected as directors to the board and on June 14, 2001, Marilyn G. Belek and Jerry R. Holcombe were elected as directors. The following individuals were released from their position as directors during the period under review: Donald B. Conkling in 2000, Ronald S. Bull and William T. Ward in 2001, and Fredrick G. Mylius in 2002.

Biographical affidavits were not filed with the Insurance Commissioner immediately after the selection of Fredrick G. Mylius as new officer and director in 2000, and a statement was not filed with the Insurance Commissioner immediately upon the release of the individuals listed above. This was not in compliance with the Utah Code Annotated (U.C.A.) § 31A-5-410(1)(a) and 31A-5-410(2)(a).

Conflict of Interest

The Company has an established procedure for disclosure to its board of directors of any material conflict of interest on the part of its officers, directors or responsible employees on an annual basis.

Corporate Records

The minutes for the stockholders, committees and the board of directors' meetings were reviewed. The minutes adequately approved and supported company transactions and events. The prior examination report was presented to the board on May 21, 2001, in accordance with U.C.A. § 31A-2-204(8).

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

The Company was not involved in any major corporate event during the period under examination.

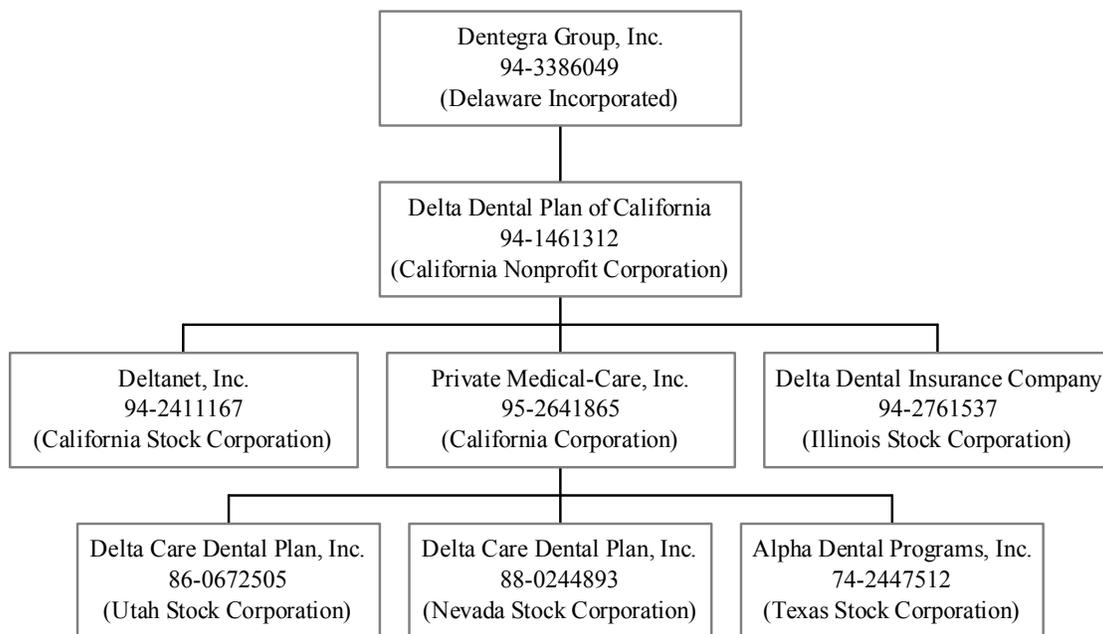
Surplus Debentures

There were no debentures issued or retired during the period under review, nor were any outstanding as of the current examination date.

AFFILIATED COMPANIES

Affiliates

The Company is a member of an insurance holding company system, and the ultimate controlling person within that system is Delta Dental Plan of California, which is headquartered in the state of California. The following chart illustrates the holding company system:



Transactions with Affiliates

The Company entered into an agreement with its immediate parent, Private Medical-Care, Inc., whereby the parent provides services necessary for the Company's operations. The agreement was executed effective October 1, 1993. The parent receives a management fee equal to 18 percent of the Company's gross earned monthly revenues in compensation for services provided under the agreement. The parent has an

agreement with affiliate Delta Dental Insurance Company to provide marketing support services in Utah.

FIDELITY BOND AND OTHER INSURANCE

The Company does not maintain any insurance coverage in its own name because it does not have any employees. Instead, it participates in policies maintained by Private Medical-Care, Inc., which meets suggested minimum amounts set forth by the National Association of Insurance Commissioners.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company did not have any employees. Private Medical-Care, Inc., was responsible for the operations of the Company. Therefore, the Company did not have pension, stock ownership, or insurance plans.

STATUTORY DEPOSITS

The Company maintained a \$30,000 par and market value security as a statutory deposit for the benefits of all policyholders with the state of Utah Insurance Department as of December 31, 2002. The deposit was adequate considering its statutory deposit requirement set forth in U.C.A. § 31A-8-211.

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

The policies issued by the Company consist of prepaid dental plans that provide coverage for specified general procedures. The policy forms contain a schedule of benefits and co-payments as well as limitations of benefits. Components of the Company's premium rates include expected capitation paid to providers, factors for administration, and factors for specialty care.

There were no exceptions noted in comparison of form stock utilized by the company during the period under examination to approved forms promulgated by the Utah Department of Insurance laws. The Company retained the entire risk under policies written.

Territory and Plan of Operation

The Company has a certificate of authority authorizing it to operate as a limited health plan in the State of Utah. The Company does not operate in any other jurisdictions.

The Company has contracted with approximately 46 dental providers to provide services to its enrollees. Most of these providers are located within the Wasatch Front

metropolitan area. The following payment mechanisms are usually found in the Company's provider contracts:

Type of Contract	Method of Payment
Primary Care	Capitation
Specialist Care	Discounted fee for service less applicable co-payments based on usual, customary, and reasonable charges

The provider agreements reviewed contained provisions stating the respective enrollee is not responsible for amounts due the provider from the Company, but the enrollee is responsible directly to the provider for payments concerning services rendered that are not defined as a covered benefit.

The dental plans are designed for qualified groups with a minimum enrollment of five primary enrollees or 10% of the eligible members of the group whichever is greater. There is no maximum group size, and there are no specialized markets intended.

The Company had a total of 1,067 enrollees as of December 31, 2002. Of these, 558 belonged to group plans. The remaining 509 were individual enrollees.

Advertising and Sales Material

The Company mostly targets groups and does not have preprinted advertising material. Instead, it generates proposals for each group that is interested, and proposals are presented on a case-by-case basis.

The Company markets its dental plans through licensed employees of an affiliated company, Delta Dental Insurance Company. The plans are designed for qualified groups with a minimum enrollment of five primary enrollees or 10% of the eligible members of the group whichever is greater. There is no maximum group size, and there is no specialized market intended.

Treatment of Policyholders

The Company has a written procedure through which covered persons may channel complaints. The Company's complaint register showed that none of the nine complaints it received during the period under examination were outstanding as of December 31, 2002. Also, there were no complaints registered with the Utah Department of Insurance during this same period.

REINSURANCE

The Company did not assume or cede reinsurance during the examination period.

ACCOUNTS AND RECORDS

Most of the functions necessary for the Company's operation were performed by employees of its parent, Private Medical-Care, Inc. or by other affiliates under contract with Private Medical-Care, Inc. The Company's records were maintained and processed in either Cerritos, or San Francisco, California. The Company received permission from the Utah Insurance Commissioner to maintain its principal place of business in California in an order dated October 5, 1993.

The Company's general ledger was maintained on an accrual basis. The examiner footed the Company's general ledger trial balance and reconciled it to the balance sheet and statement of revenue, expenses and net worth contained in the 2002 annual statement. Individual financial statement accounts for the years covered in the examination period were reviewed and reconciled as deemed necessary.

Effective February 28, 2000, the Company discontinued using an outside credentialing service to maintain documentation required in the provider agreements; Private Medical-Care, Inc. began maintaining those records.

FINANCIAL STATEMENTS

The following financial statements were prepared from the Company's accounting records and the valuations and determination made during the examination:

BALANCE SHEET as of December 31, 2002

STATEMENT OF REVENUES AND EXPENSES
For the Year Ended December 31, 2002

STATEMENT OF CHANGES IN NET WORTH 2000 through 2002

The accompanying Notes to the Financial Statements are an integral part of the financial statements.

DELTA CARE DENTAL PLAN, INC.
BALANCE SHEET
As of December 31, 2002
ASSETS

	<u>Net Admitted Assets</u>	<u>Notes</u>
Cash and short-term investments	\$ 363,047	
Accident and health premiums due and unpaid	5,847	
Investment income due and accrued	73	
Amounts due from agents	28	
Total assets	<u>\$ 368,995</u>	

LIABILITIES, SURPLUS, AND NET WORTH

	<u>Total</u>	
Claims unpaid	\$ 8,151	
Premiums received in advance	18,386	
General expenses due or accrued	15,121	
Amounts due to affiliates	39,232	
Total liabilities	<u>80,890</u>	
Common stock	10,000	
Paid in surplus	119,552	(1)
Unassigned funds (surplus)	158,553	(2)
Total net worth	<u>288,105</u>	
Total liabilities and net worth	<u>\$ 368,995</u>	

DELTA CARE DENTAL PLAN, INC.
STATEMENT OF REVENUES AND EXPENSES
For the Year Ended December 31, 2002

	<u>Total</u>	<u>Notes</u>
REVENUES:		
Net premium income	\$ 89,593	
Aggregate write-ins for other health care related	<u>1,037</u>	
Total revenues	<u>90,630</u>	
EXPENSES:		
Other professional services	50,602	
Outside referrals	<u>(1,142)</u>	
Total provider	<u>49,460</u>	
General Administration expenses	<u>29,709</u>	
Total expenses	<u>79,169</u>	
Income	11,461	
Net investment income earned	3,771	
Provision for federal income taxes	<u>(1,025)</u>	
Net income	<u>\$ 14,207</u>	

DELTA CARE DENTAL PLAN, INC.
 STATEMENT OF CHANGES IN NET WORTH
 2000 through 2002

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Notes</u>
Net worth beginning of year	\$ 221,846	\$ 249,817	\$ 255,489	
Increase in paid in surplus	0	0	0	
Net income	14,193	6,650	14,207	
Change in non-admitted assets	13,778	(978)	18,409	
Net worth at end of year	<u>\$ 249,817</u>	<u>\$ 255,489</u>	<u>\$ 288,105</u>	

NOTES TO FINANCIAL STATEMENTS

(1) Paid-in Capital \$119,552

The examination increased gross paid in and contributed surplus by \$18,409 to correct a misclassification made by the examinee.

(2) Unassigned Funds \$158,553

The examination decreased unassigned funds by \$18,409 to correct a misclassification made by the examinee.

Utah Code Annotated § 31A-8-209(2)(a) requires the Company to maintain a minimum capital or permanent surplus in the amount of \$15,000. In accordance with U.C.A. § 31A-17-601, Part 6, the Company reported total adjusted capital in the amount of \$288,105 and authorized control level Risk-Based Capital (“RBC”) in the amount of \$25,027. The examination determined total adjusted capital to be the same and accepted the Company’s calculation of its authorized control level RBC.

SUMMARY

Items of significance or special interest contained in this report are summarized below:

- I. Pursuant to (U.C.A.) § 31A-5-410(1)(a) and 31A-5-410(2)(a), biographical affidavits were not filed with the Insurance Commissioner immediately after the selection of new officers and directors in 2000, and a statement was not file with the Commissioner immediately upon the release of individuals listed under the caption “Management” on page 3 and 4 of this report. **(MANAGEMENT)**
- II. The Company is required to maintain a minimum capital or permanent surplus in the amount of \$15,000. The examination determined total adjusted capital to be \$288,105 and accepted the Company’s calculation of its authorized control level RBC in the amount of \$25,027. **(NOTES TO FINANCIAL STATEMENTS)**

CONCLUSION

The assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company is sincerely appreciated.

Respectfully Submitted,

Faanu Laufiso
Financial Examiner
Utah Insurance Department